

**Department of State**
TELEGRAMHAK Visit 10011-3
(34) 15/1

9233

AMEMBASSY TEHRAN

DISTRIBUTION

ACTION: SECSTATE WASHDC IMMEDIATE
INFO: ISFAHAN IMMEDIATE
Amembassy BUCHAREST IMMEDIATE
USIA WASHDC IMMEDIATE

9269 7

2 NOV 74 - 1700Z

UNCLASSIFIED TEHRAN 9269

USIS 5

DEPARTMENT PASS WHITE HOUSE FOR GEN. SCONCROFT AND NESSEN

AMB

BUCHAREST FOR SECRETARY'S PARTY

DCM

S/S 15

USIA FOR IPS and IBS

ECON 2

POL 2

E.O. 11652: N/A

CRU

27/drm

TAGS: OVIP (KISSINGER, Henry A.)

SUBJECT: Press Conference of Shah of Iran

The Shah invited reporters of the Kissinger party to a press conference at Saadabad Palace Tehran at 12:30 on November 2nd.

Following is a verbatim transcript of the Conference: Quote:

Q. YOUR MAJESTY, may we begin?

A. Certainly.

Q. Can you tell us, please, if you have been approached by Saudi Arabia to join in lowering oil prices, and if you have, what the results of that approach is.

DRAFTED BY:

USIS:CAO:WDeliver:ms

DRAFTING DATE

11.2.74

TEL. EXT.

2483

APPROVED BY:

USIS:EXO:RK111ea

CLEARANCES:

UNCLASSIFIED

Classification

A. I think that if you wait until the next meeting of the OPEC countries in Vienna, you will see what Iran's proposals will be. I will just touch on the subject that we are going to propose for a single price of oil all over the world, except for geographical location and quality of oil. That single price of oil will be well below the actual posted price of the Persian Gulf. But it won't be long before we have that meeting in OPEC, and I don't want to steal the show from that meeting now.

Q. Your Majesty, did King Faisal send you a letter before the last OPEC meeting asking you for cooperation on the oil price question?

A. Well, we are in contact with Saudi Arabia, and our system might be different from theirs because they have a participation agreement with oil companies, when, in our case, oil has been completely nationalized, so the approach is different. But we are in very close contact, and if our methods are different, probably our aims are the same.

Q. Your Majesty, did Secretary Kissinger give you the impression that the United States would support a fixed price for oil?

A. Well, I can't speak for him but I think that a fixed price for oil has the advantage that nobody could manipulate it further. I mean, everybody will know there is one single

UNCLASSIFIED

Classification

Classification

price for oil; and how much profits the oil companies should make, or would be allowed to make, on a barrel of oil; and how much it will cost the consumer to use and to consume that oil; and how much he is going to pay his own country in taxations. There are cases, I'm not going to mention any names, of countries in Europe which levy on one barrel of oil so much taxes that it is more than the government take of, for instance, my country. And this is true.

Q. Your Majesty, when you refer to a single price for oil for the Persian Gulf, which you will propose, I assume that you also are still tying it to a link or basic commodities of elsewhere throughout the world?

A. Oh, yes. I think this is the basis of our proposal, to link it later to a basket of, a price of, say, 20 to 30 commodities. If they go up, why should we lose our purchasing power? If they go down, oil should go down along to help the world economy. But what is really interesting, is to hold our purchasing power intact, because we have been cheated so much in the past, that sense, that with inflation and erosion of the purchasing power of our money, the same old situation is not going to be repeated once more.

Q. If I may follow that up, sir--in other words, in order to achieve this new relationship of oil prices and commodity prices, will it not require a considerable, almost a revolutionary,

UNCLASSIFIED

Classification

change of concept by the major industrial countries for establishing this new relationship? And secondly, if you would comment on that, what do you regard as the prospects for achieving this kind of relationship in a short term?

A. No doubt that there must be contact between the OECD countries representing, if we can say, all the MX advanced industrial countries of the world and our organization or the representatives of our organization. They could discuss the whole aspect of world economy and how to establish the contacts, establish the relationships, between the prices of these 20-30 commodities and the world inflation; because if we cannot link the price of oil with the price of inflation, there won't be any pressure or incentive for the industrial world to check their inflation. If they do not check their inflation, we can defend ourselves with the pricing of our oil. But who is going to suffer? The poor countries, or the developing countries--they will suffer on both fronts. So to keep our whole world together in one piece, we'll have to have a very comprehensive talk between the developed industrial countries of the world and we producers of energy in the immediate future.

Q. Your Majesty, the indexing system has been criticized as possibly institutionalizing inflation. You disagree with that.

UNCLASSIFIED

Classification

A. How could it institutionalize inflation?

Q. Well, I'm not one of the proponents of the criticism, but the way it's been explained to me is that it locks you into a system where you set minimums that, in effect, set an inflationary rate and keep it moving up and possibly a little down.

A. Well, we have been witnessing inflation in the world before the increase of the oil price. We have had inflation in the world when oil was so cheap. How do they respond to this? Or answer to this?

Q. Your Majesty, on indexing, would you be willing to take a previous price of oil? The answer I think to that is that the price of the goods that you have listed have less than doubled in the last eleven years and the price of oil has more than tripled in the last eleven years.

A. Well this is simplifying things because, well, this is a long story, but I have got to say ^{once} ~~it~~ ~~one~~ more: in 1947 the posted price of a barrel of oil in the Persian Gulf was \$2.17. In 1959 the posted price of a barrel of oil in the Persian Gulf was \$1.79. That is a decrease of \$.38. In that period of time, world commodities increased by between 300 and 400%. I'm giving you facts. What about that? And furthermore, the price of commodities has not increased twice; we are buying sugar for more than \$1.000 now. We are buying vegetable oil for more than \$1,000. You will tell me it's because of the

UNCLASSIFIED

Classification

UNCLASSIFIED

SECRET

increase in the price of oil, that agriculture has augmented: I will say, why has the price of cotton dropped? Or coffee? So, there must be a relation. Our pricing of oil at the beginning, and again, I am going to go into detail--even if you don't print it, it doesn't matter--in 1973, December 1973, when I asked \$7.00 government take for the light Arabian crude in the Persian Gulf --please note this down--later on the oil companies in their negotiation for participation agreement with other countries of the Persian Gulf--the 60/40/60 participation agreement rose the price of oil to what it is now, that is 9.74. I didn't do it; the oil companies did this. I don't care if you call me the hawk, but the truth is what I just told you. When I asked for \$7.00, it was to have a comparison between any other sources of energy, like shale oil, coal, or other kind of energy. And today we know that you cannot get shale oil or other sources of energy for even that price. So when we go into discussion with the developed countries of the world--and, I hope, a comprehensive and constructive discussion --it must be about all these things. To think of the economy of the whole world, not just the interest of a few countries, or the interest of we, the producers. Because if the world collapses, we shall collapse with it. We belong to that world. We belong to the world that you call the so-called free world.

UNCLASSIFIED

Classification

And we don't want to see you collapse because we are going to collapse along with you.

Q. Your Majesty, when you make your proposal at the OPEC meeting, could you give us an idea now of what the range of that price will be?

A. If it has been published so far, if the figures have been quoted, I can also say what the proposal will be. It is the present government take at a single price and that will bring the price of the posted in the Persian Gulf considerably down.

Q. Can you estimate by how much?

A. About \$1.60, of the posted.

Q. Your Majesty, as you know, there are ~~and~~ hundreds of millions of people who are bewildered by the oil pricing structure--well-head prices, posted prices, percentages, concessions, royalties--to all of those people all over the world, what does this mean? Is it your educated guess that the price of oil will go up or down in the next year?

A. It will--for the consumer?

Q. For the consumer

A. It will go down, because we want to limit the oil companies to only \$.50 per barrel revenue... interest. If you think that this is too much, it will be your problem with the oil companies.

We think that 50% is fair. But why should they make \$2.00 on

[one barrel of oil? Why should some of them make 700% of INTEREX]

UNCLASSIFIED

Classification

UNCLASSIFIED

interest in one year? Is that fair?

Q. So you think that the price of a gallon of gasoline, say in the United States, will be less a year from now than it is today?

A. It should be less. It should be less, because there will be that much money less in the posted price and the profits of the oil companies would be limited. So, there should be less pressure on the consumer, unless every government is going to levy ~~additi~~ additional taxes on gasoline and these things in order to curb consumption. This will be beyond our responsibilities.

Q. Your Majesty, so we don't misunderstand you, are you saying, sir, that this is apart from your basic concept of linkage or that this will be part of what will go into effect at any rate at the OPEC meeting?

A. No, this will go into effect at any rate. For the ~~fx~~ future, there must be a link between the price of oil and the price of the commodities, because if not, somebody will say the inflation of the world is 12%; somebody will say it's 25%; somebody will say it's maybe 6%. But in order to safeguard our interests, we will have to say that we have got to increase the price of oil that much, in order to keep our purchasing power intact. That will make things so much complicated. But if it is an automatic link between the price of those commodities and the price of oil, say let's accept an

UNCLASSIFIED

UNCLASSIFIED

Classification

DATE

International Chamber of Commerce of Zurich, could say what this index is--what world inflation is, really. And then relate this to the price of oil.

Q. Well, the reason I ask this for clarification for those who do not follow all of the intricacies of the oil-pricing system is that while you speak of a general consumers' price reduction, even without the linking, the oil experts here tell us that the OPEC meeting almost surely will result in an increase in the price of oil of some \$.34 a barrel. Could you clarify that?

A. Oh, that is for the present inflation system. You'll have to wait for this until the OPEC meeting, because the price--I mean the inflation rate in the world today (I don't know how much it is--some people say about 20%, 27% in some European countries; some are less--Germany 7%, others are 15%; the U.S., you know better) so there is not a definite clear picture. We have always said that the price of oil and the purchasing power should remain intact. But nevertheless, we have not increased the price of oil as much as the rate of inflation: that was to show some goodwill gesture. But this doesn't mean that you can free will, let your inflation gallop and erode our purchasing power without us trying to defend our interests.

Q. I recognize that; therefore, then, are you agreeing, sir, that the price of oil actually will increase once the inflation rate is added to it at the next OPEC meeting?

UNCLASSIFIED

Classification

DECLASSIFICATION

153-8-20-1

A. Again, all will depend on what initial single price we are going to propose. Let's wait until we have the meeting.

Q. Your Majesty, is it a fair statement that your indexing linkage concept between the price of oil and the price of 20 or 30 commodities can only work if the preponderant number of the oil producers and the majority of the major consumers all functioned within that system and who is going to carry the ball, so to speak, in order to get this system launched?

A. Well there should be some kind of agreement and understanding between the developed countries, the industrial countries of the world, because they consume, I think, about 85% of the whole oil production of the world. The rest of the countries, say third-world or developing countries, consume only 15%.

Q. Do the other countries that produce oil in OPEC share your enthusiasm for an indexing?

A. We have this impression, yes. I think so.

Q. Your Majesty, for those of us who might not follow the intricacies of this whole oil question, there might appear to be something of a contradiction here. Because on the one hand we are being told that a year from now an American buying gas probably will be paying less than he pays now; on the other hand, if I understood it right, at the next OPEC

UNCLASSIFIED

Classification

Classification

MMH

meeting there might be a 30-40¢ increase in the cost of a barrel of export crude. What is going to happen; is it going up, or is it going down?

A. Well, if the oil companies make only \$.50 instead of \$2.00, it will go down. If you let them do anything they want, it will go up.

Q. So that the responsibility, then, in your opinion, would rest with the oil companies...

A. Surely, that's why I'm proposing a single price system because if not, if it is a posted price, then you have realization price, halfway price, buy-back price--God knows what other pricing system--and you would never know what is happening. It's really a question of manipulation. But if you have a single pricing system, it will be crystal-clear for everybody who is cheating.

UNCLASSIFIED

Classification

Q. And could there be a single price since there are so many countries involved in....

A. I said except for geographical location and quality of oil. We can't expect to get as much money with selling oil to the United States as Venezuela can, because she's so much closer. We cannot expect to get as much money as Algeria in selling our oil to Europe, because Algeria is so much closer.

Q. Your Majesty, do you think the oil companies have been gouging the public recently? Too much profit?

A. The published figures are about sometimes 700%, 400%, 300%, 150%--this is up to you to decide if they have been gouging or not.

Q. Your Majesty, what will happen to the revenues accruing to the producing countries? Are they going to increase or decrease?

A. To the producing countries?

Q. Yes.

A. No. They are not going to decrease. Certainly not. And I see no reason why(they should). But the oil companies will make less profits, for one; second is that this year of terrible world inflation has already eroded our purchasing power. So in matter of fact, the price of oil has come down, as far as we are concerned. Because we have not augmented in OPEC as much as we have lost. We have augmented \$.33. When if we say an average of 20% inflation, we have lost about \$2.00.

UNCLASSIFIED

Classification

Q. Your Majesty, I wonder if I could raise a question on another subject; namely, your perception of what the summit conference in Rabat will do to future Middle East negotiations.

A. Well, I was not in Rabat and I have not yet received any report from our friends there, but according to the news, if that will be a prevailing attitude of the Israeli state--if they don't want to talk with the PLO--that will make things a little more difficult, and we don't see how this west bank and Jordan problem will be tackled...I think that this gentleman tried to ask...

Q. Thank you, Your Majesty. Could you give us some idea of whether you and Dr. Kissinger last night reached a general agreement in how the Indian Ocean should develop in the next decade; in the short run, for instance, do you agree that the United States should have a presence in the Ocean to counter the Soviet presence? And what are the prospects for your long-range application of the big powers ~~xxx~~ staying out of the area?

A. Well, I ~~am~~ have already answered this question during my Australian visit. I said we have the presence of the Soviet Union warships in the Indian Ocean. I don't see why one nation could be represented so forcefully and not another. How could we ask the Americans not to come into the Indian Ocean if we have the presence of the other super power? But the aim is that if the countries of the Indian Ocean region could have some closer contact and relationship, the day will come that we might be

UNCLASSIFIED

Classification

able to tell the two super powers that you can have all the trade influence, political relationship that you want in that region--but really, there is no need for your military presence. That's the whole idea.

Q. If I may pursue that, sir, where does that leave your position vis-a-vis the United States' current plan to expand the naval facilities on Diego Garcia? Does this mean that from your standpoint you regard that as an inevitable offset to the Soviet presence, or do you object to it, sir?

A. Now I have already, again, answered this question. Not only do we not object, we see this as a natural follow-up.

Q. Your Majesty, a moment ago you mentioned you did not see how the problem of the west bank could be tackled. Do you have any initiative of your own or suggestion as to what should be the next step in the next few months in the Middle East in trying to settle, or take another step toward peace between the Arabs and Israelis?

A. I don't want to really mix myself into that very difficult question, but offhand, I would say to start again the Geneva peace talks.

Q. Your Majesty, do you see Iran as sort of a policeman for the Indian Ocean region in the long term?

A. For peace--if you would please say peacekeeper, I would say, we will try to contribute to the peacekeeping of the region. But, I must add, we can't take any chances. We have got to defend our national interests anyway--if possible, and hopefully with the

UNCLASSIFIED

Classification

collaboration of others. If we can't get that collaboration-- and that is always possible--then, if necessary, we will do it alone.

Q. Your Majesty, you suggested a moment ago a return to the Geneva peace conference. I wonder what makes you believe that that will not stalemate the entire situation even further than it's stalemated right now.

A. Well, it might, but still it is a contact; it's better than nothing.

Q. Your Majesty, on the subject of oil again, if the pricing structure can't be worked out, if the western industrialized world is not satisfied with the price of oil, how serious do you regard the threat of some kind of military intervention?

A. That seems really a little remote--military intervention in how many places? In all the oil-producing countries of the world? Are you going to occupy Venezuela? Is America going to do all these occupation jobs? Do you have enough troops? Can you occupy Venezuela, Mexico, Saudi Arabia, Iran and the rest of the OPEC ~~countries~~ countries? Or will you gang up; will you, with the Europeans, do this job? Do you think that the Communists will stay silent? No, I really think this question of military confrontation is just a little loose talk; it's not very serious. The only thing that could be achieved will be through ~~meaningful~~ meaningful negotiations, and constructive, I hope.

UNCLASSIFIED

Classification

Classification

MRN

Q. Your Majesty, I'm still somewhat confused on your position and Dr. Kissinger's...at his news conference, just before this, he left the very strong impression that the views of the two nations had narrowed somewhat, that, in fact, at the OPEC meeting the oil price might be stabilized or possibly even come down, although he did not say that specifically. From your comments, I'm getting the impression that unless the oil companies are willing to accept profits of--as you say--\$.50 or less, we can look forward to an increase in the posted price.

A. But the oil companies have no choice. They have to accept. It's not for the oil companies to decide. They have no choice in that matter, unless you people want the oil companies to make more benefit than \$.50, which is a very handsome figure. Do you want them to make more money? I don't think so.

Q. As you see, your Majesty...

A. Unless you are a big shareholder in the oil companies.

Q. As you see, your Majesty, some of us are not clear on the technicalities there on that one point. Is the situation that the reduced profits of \$.50 for the oil companies is automatically imposed, ordered by OPEC at the forthcoming meeting?

A. Well, we can do that--having it one ^{single} ~~single~~ price, we can tell the world: this is the single pricing system that the OPEC countries have decided. With the exception of geographical location and quality of oil, and this is accepted by all. Now,

UNCLASSIFIED

Classification

anything that the oil companies will sell you more than this single price plus, say, \$.50, will concern only you and the oil companies.

Q. Your Majesty, we've been talking a great deal about the oil producers and the industrialized world, but what contact have you been having with the developing states--particularly some in Africa, who have been very much concerned by drought and predictions of insufficient fertilizer for crops and so forth? Do you have any additional initiatives other than loans as to how these countries can get through some of their economic difficulties?

A. Well, we have made the proposal to the United Nations for the setting up of a special fund where the oil producers will contribute--and even we mentioned the figure of \$150 million dollars each--and the developed countries of the world will also contribute, and twelve of them will be represented in that Board with us (we were twelve in those days, now we might be thirteen or fourteen). And also the ^{same} ~~same~~ number of twelve representing the developing countries of the world, sitting on a Board, which will study projects presented by these developing countries. And each project that would be approved would get a soft loan--say 25 years' term or period, 2-1/2% interest rate--through this institution, which will be serviced by the existing International Bank and the International Monetary Fund.

UNCLASSIFIED
Classification

Classificationb6
b7c

Instead of creating a new bank and wasting money on that institution, we shall use the good offices and services of the two existing banks. This would give about three billion dollars every year, which could be lent on those terms to the developing countries--just not the money, but for definite projects.

Q. Your Majesty, you referred to the Geneva Conference on the Middle East. Did you get the impression that Dr. Kissinger shared this view, or is he still leaving all the options open, including what he calls step-by-step negotiations between Israelis and the Arabs?

A. Obviously, everything is open. You ask my opinion what should be done, I just said the reconvening of the Geneva Conference.

Q. Your Majesty, if I may pursue that, you also said it's better than nothing, and frankly, that would imply, with your own considerable perception of the area, that you would anticipate there is strong likelihood of a rather sobering stalemate here. I would like to ask you, sir, if you believe there is a rising danger of ~~war~~ war over the Arab-Israeli conflict, and if so, what that does, in your judgment, to the future flow of oil to the rest of the world?

A. Well, we have been living with this question for a number of years now. Now, let's see what effect the Rabat conference will have on that issue. It's a little, maybe too soon to speculate. Will this jeopardize completely the peace talks, or it might in

UNCLASSIFIEDClassification

some ways eventually help. Let's wait a little

Thank you for your time, Your Majesty. End quote.

 HELMS

UNCLASSIFIED

Classification